



Expenditures on capital and revenues in the Indian Economy: An Assessment

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Abstract:

The size and pattern of Public spending has great relevance in the growth process and in the reduction of economic disparities. The pressure on Public expenditure is particularly great in developing economies because of growing population and Public expenditure is an effective policy instrument in this context. This study has analyzed the trend in revenue and capital expenditures in the Reform period (i.e., from 1991 onwards). This paper points out the rapid growth of Public expenditure throughout the study period. The major proportion of revenue expenditure has been highlighted in this analysis and stresses upon the improvement of capital expenditure side as higher expenditure on capital account would be growth enhancing, enabling the overall development of the economy.

Key Words: *Economic Disparities, Public Expenditure, Revenue, Development.*

Introduction

Central and state governments in India spend massive amounts for developmental, welfare and administrative activities. At the time of Independence, public expenditure formed around 5 per cent of national income. Presently this figure hovers around 14 per cent. Public expenditure in India has various classifications which are important because they explain the inter-relationship between the government sector and rest of the economy and reveal the relative size of different governmental activities in the economy. The size and pattern of Public spending has great relevance in the growth process and in the reduction of economic disparities. The pressure on Public expenditure is particularly great in developing economies because of growing population and the consequent need for medical, educational, housing and employment facilities. Public expenditure is an effective policy instrument in this context. The best way to look at the structure of government expenditure is to examine the economic division of total expenditure between revenue and capital expenditure.

The nature of Revenue expenditure is that it neither creates assets nor reduces a liability and is recurring in nature which is incurred every year. Generally, these expenditures are incurred for the normal running of Government departments, and various other services such as interest charges of debt incurred by government, salaries of employees, subsidies, pensions and others are financed out of revenue receipts. All grants received by state governments and other parties are also treated as Revenue expenditure. The purpose of such expenditure is not to build up any capital asset but to ensure normal functioning of the government machinery.

On the contrary, Capital expenditure is an expenditure which either creates an asset (e.g., construction of buildings) or reduces a liability (e.g., repayment of loan). It deals with the cost of constructions or acquiring an asset of a lasting nature, yielding revenue or avoiding recurring commitment. Items like purchase of land or buildings, investment in shares, laying of roads, irrigation projects, machinery and equipment, share capital investments, leading to direct capital formation comes under Capital expenditure. Capital expenditure is incurred for financing projects involving heavy cost which is met out of capital receipts. This type of expenditure adds to the capital stock of the economy and raises its capacity to produce more in future.

This study analyses the trend in revenue and capital expenditures in the Reform period (i.e., from 1991 onwards).

Trends in Revenue and Capital Expenditures:

From the time the economic reforms began, there has been a tendency to suppress capital expenditure in the face of the inability to control revenue expenditure. While disapproving spiraling revenue expenditures and bemoaning the decline in capital expenditures, it is being assumed that all capital expenditures are developmental in nature. ² Even though this standpoint may generally be true, it is important to remember that there can be and have been wasteful capital expenditures. This state of affairs could not but raise extreme concern about the future growth prospects of the economy. Table-1 presents the share of revenue and capital expenditures towards total expenditure and also their contribution in percentage and respective growth rates.

The first major trend in Public expenditure in India is the growing revenue expenditure of the Central Government from Rs. 73,557 crores in 1990-91 to Rs. 1,536,047 in 2015-16 which is a 20-fold increase. Increased defense commitments, expansion of administration, Governments' international commitments, increase of Governments' participation in nation building activities like education and public health, rise in prices are responsible for the increased revenue expenditures of the Central Government. Capital expenditure during the same period increased only about 8 times from Rs. 27,327 crores in 1990-91 to Rs. 2,41,431 crores in 2015-16. This trend reveals that the composition of total expenditure is skewed in favour of revenue expenditure contributing 86.42 per cent in 2015-16 whereas capital expenditure constituted only 13.58 per cent in the same year.

Table-1: Revenue and Capital Expenditures of the Central Government of India from 1990-91 to 2015-16 (in crores)

Year	Revenue Expenditure			Capital Expenditure			Total Expenditure	
	Amount	%	GR	Amount	%	GR	Amount	GR
1990-91	73557	72.91	-	27327	27.09	-	100884	-
1991-92	82291	76.26	11.874	25612	23.74	-6.276	107903	6.957
1992-93	92690	75.66	12.637	29825	24.34	16.449	122515	13.542
1993-94	108499	76.58	17.056	33190	23.42	11.282	141689	15.650
1994-95	122346	79.12	12.762	32294	20.88	-2.700	154640	9.140
1995-96	139714	80.19	14.196	34504	19.81	6.843	174218	12.660
1996-97	158811	82.14	13.669	34533	17.86	0.084	193344	10.978
1997-98	179996	86.68	13.340	27668	13.32	-19.880	207664	7.406

1998-99	216417	86.28	20.234	34416	13.72	24.389	250833	20.788
1999-00	248869	85.99	14.995	40531	14.01	17.768	289400	15.376
2000-01	277975	88.81	11.695	35036	11.19	-13.558	313011	8.159
2001-02	301775	87.06	8.562	44838	12.94	27.977	346613	10.735
2002-03	340093	92.61	12.698	27134	7.39	-39.484	367227	5.947
2003-04	363045	100.89	6.749	-3206	-0.89	-111.815	359839	-2.012
2004-05	383031	95.15	5.505	19519	4.85	-708.827	402550	11.869
2005-06	404303	87.77	5.554	56311	12.23	188.493	460614	14.424
2006-07	514313	91.04	27.210	50621	8.96	-10.105	564934	22.648
2007-08	593659	84.57	15.428	108327	15.43	113.996	701986	24.260
2008-09	790593	90.37	33.173	84237	9.63	-22.238	874830	24.622
2009-10	905473	89.37	14.531	107720	10.63	27.877	1013193	15.816
2010-11	1036061	87.22	14.422	151836	12.78	40.954	1187897	17.243
2011-12	1145955	89.04	10.607	141042	10.96	-7.109	1286997	8.342
2012-13	1259391	88.88	9.899	157529	11.12	11.689	1416920	10.095
2013-14	1371772	87.97	8.923	187675	12.03	19.137	1559447	10.059
2014-15	1488780	88.56	8.530	192378	11.44	2.506	1681158	7.805
2015-16	1536047	86.42	3.175	241431	13.58	25.498	1777478	5.729

Sources: 1) Various issues of Indian Public Finance Statistics, and 2) Budget Statement 2015-16.

The growth rate of revenue expenditure has more or less been on a stable trend ranging between 10 to 20 percent, with few outliers. In 1991-92, the growth rate was 11.87 per cent and steadily increased to 20.23 per cent in 1998-99.

Thereafter, it started declining and reached 5.55 per cent in 2005-06. In 2006-07, it rose up to 27.21 per cent and declined till 2015-16 reaching 3.17 per cent except for the year 2008-09 where the highest growth rate was recorded at 33.17 per cent. However, the growth rate of revenue expenditure has been on a positive path all through the years i.e., from 1991-92 to 2015-16.

As against the stable trend of revenue expenditure, the growth rate of capital expenditure is found to be on an undulating trend. Though the actual amount of capital expenditure is increasing over the years, the rate of increase is found to be on a decreasing trend and this has been reflected in its growth rate. The growth rates have been fluctuating and negative growth rates have also been observed in few years. In 2003-04 and 2004-05, the highest negative growth rates have been registered i.e., -111.82 and -708.83 respectively. This can be attributed to the decrease in the actual amount of capital expenditure by Rs. -3,206 crores in 2003-04. This was due to the higher proportion of repayment of loans and advances by the states and union territories to the Central Government. The implementation of Fiscal Responsibility and Budget Management (FRBM) Act in 2003 also had an impact over the capital expenditure of the Government as it brought about changes in the rate of fiscal deficit to not more than 3 per cent; thereby reducing the amount of loans sanctioned to the states and others 3. Due to the fluctuating trend of capital expenditures' growth rate, it becomes

imperative to analyse its pattern in an elaborate manner. The following section examines the various components of revenue and capital expenditures and its significance towards the economy.

Trends in the Components of Revenue Expenditure:

Revenue expenditure is incurred for the normal running of government departments and various services and payment of interest charges on debt incurred by government. In short, expenditure which does not result in the creation of assets is treated as revenue expenditure and is met out of revenue receipts of the Government, i.e., tax revenue and other revenues. Revenue expenditure consists of various heads of expenditures. For the purpose of this study, Revenue expenditure has been studied under Developmental and Non-Developmental expenditures. Expenditure on social and community services, economic services and grants-in-aid to the states and union territories fall under developmental expenditures. Expenditure on general services (audit, tax collection, pensions, public works) come under non-developmental expenditures. The most significant items of expenditure under non-development category are interest payments, subsidies and defense services.

Table-2 depicts the breakdown of revenue expenditure into developmental and non-developmental expenditures from 1990-91 to 2015-16. It could be observed from the table that the total amount of Revenue expenditure increased almost 20 times i.e., from Rs. 78,843 crores in 1991-92 to Rs. 14,80,501 crores in 2015-16. This trend of escalating Revenue expenditure is not considered to be ideal as

revenue expenditures are generally considered to be non-developmental in nature. However, to understand the real impact of revenue expenditure upon the economy, this study classifies developmental and non-developmental expenditures under the Revenue account.

It is evident from the above table that in the 90s, the share of developmental expenditure was much lower than non-developmental expenditure with the latter possessing almost double the share of developmental expenditure. In 1991-92, the share of non-development expenditure was 63 per cent, whereas the share of development expenditure stood at 37 per cent. Throughout the 90s, this trend could be observed wherein non-developmental expenditure constituted almost 65-70 per cent and on the other hand, developmental expenditure was contributing around 30 per cent. It could be noticed that this trend reversed gradually from 2000-01 onwards. The share of developmental expenditure started increasing and non-developmental expenditure began to decline. In 2015-16, the share of non-developmental expenditure decreased to 55.5 per cent and developmental expenditure contributed 45 per cent. Though the percentage share of non-developmental expenditure was still higher when compared to developmental expenditure, the balance between these expenditures improved gradually. This trend is much appreciated as higher non-developmental revenue expenditure would lead to higher borrowings which imply higher interest payments, this becoming a vicious circle. Therefore, higher proportion of developmental expenditure is always desirable under Revenue account.

Table-2: Components of Revenue Expenditure (Rs. Crores)

Year	Non-developmental			Developmental			Total
	Amount	%	GR	Amount	%	GR	Amount
1990-91	43615	62.17		26542	37.83		70157
1991-92	49753	63.10	14.07	29090	36.90	9.60	78843
1992-93	56837	63.98	14.24	31996	36.02	9.99	88833
1993-94	69168	66.21	21.70	35295	33.79	10.31	104463
1994-95	73632	52.49	6.45	66641	47.51	88.81	140273

1995-96	92018	68.45	24.97	42411	31.55	-36.36	134429
1996-97	105515	68.75	14.67	47958	31.25	13.08	153473
1997-98	122050	68.99	15.67	54850	31.01	14.37	176900
1998-99	148850	69.70	21.96	64719	30.30	17.99	213569
1999-00	171710	70.06	15.36	73370	29.94	13.37	245080
2000-01	185667	69.70	8.13	80730	30.30	10.03	266397
2001-02	199669	69.12	7.54	89215	30.88	10.51	288884
2002-03	223974	68.01	12.17	105373	31.99	18.11	329347
2003-04	232679	66.09	3.89	119363	33.91	13.28	352042
2004-05	245918	66.30	5.69	124996	33.70	4.72	370914
2005-06	260052	62.64	5.75	155104	37.36	24.09	415156
2006-07	289375	59.56	11.28	196484	40.44	26.68	485859
2007-08	328123	57.84	13.39	239171	42.16	21.73	567294
2008-09	410338	53.76	25.06	352996	46.24	47.59	763334
2009-10	500226	57.12	21.91	375549	42.88	6.39	875775
2010-11	540370	53.79	8.03	464177	46.21	23.60	1004547
2011-12	581670	52.78	7.64	520312	47.22	12.09	1101982
2012-13	651804	54.12	12.06	552555	45.88	6.20	1204359
2013-14	678743	49.59	4.13	690023	50.41	24.88	1368766
2014-15	750804	54.27	10.62	632592	45.73	-8.32	1383396
2015-16	822619	55.56	9.57	657882	44.44	4.00	1480501

Sources: Various issues of Indian Public Finance Statistics, and 2) Budget Statement 2015-16.

Trends in the Components of Capital Expenditure:

Capital expenditure which is financed out of capital receipts is said to be developmental in nature and is incurred for the purpose of creating assets and capital formation. There are three major heads of expenditure under capital expenditure namely, Non-developmental expenditure, Developmental expenditure and Loans and Advances. Under Non-developmental expenditure, the main item of expense is defence services and it also includes expenditure on fiscal services. These expenditures are of non-developmental in nature as they neither create assets nor in capital formation. Developmental expenditure on the other hand brings forth revenue through creation of assets. It includes expenditure on (a) social and community services (b) economic services (c) loans advanced to states and union territories for financing developmental projects and (d) loans advanced to finance public enterprises.

Table-3 represents the contribution of these three major heads towards the total capital expenditure from 1990-91 to 2015-16. The total amount of capital expenditure has witnessed a significant rise in the study period i.e., from Rs. 27,327 crores in 1990-91 to Rs. 2,41,431 cores in 2015-16. The share of Non-developmental expenditure stood at 19.63 per cent in 1990-91 towards the total capital expenditure. With a fluctuating trend, it rose up to 64.5 per cent in 2002-03 and immediately slumped down to -629.13 per cent

in the following year. In 2004-05, its share reached a peak of 179.4 per cent and thereafter started declining and stood at 44 per cent in 2015-16. The analysis of Non-developmental expenditure reveals an increasing trend in the late 1990s and with certain fluctuations in 2003-04 and 2004-05 it started declining in the following years.

Developmental expenditure stood at 29.4 per cent in 1990-91 and decreased up to 14.4 per cent in 1996-97. Again, it started rising and reached 46.43 per cent in 2002-03.

Table-3: Components of Capital Expenditure (in crores)

Year	Non-Developmental			Developmental			Loans & Advances			Total
	Amount	%	GR	Amount	%	GR	Amount	%	GR	GR
1990-91	5364	19.63	-	8023	29.36	-	13940	51.01	-	27327
1991-92	6954	27.15	29.64	6959	27.17	-13.26	11699	45.68	-16.08	25612
1992-93	12708	42.61	82.74	7176	24.06	3.12	9941	33.33	-15.03	29825
1993-94	12908	38.89	1.57	6021	18.14	-16.10	14261	42.97	43.46	33190
1994-95	7251	22.45	-43.83	11145	34.51	85.10	13898	43.04	-2.55	32294
1995-96	11344	32.88	56.45	5350	15.51	-52.00	17810	51.62	28.15	34504
1996-97	9228	26.72	-18.65	4967	14.38	-7.16	20338	58.89	14.19	34533
1997-98	9965	36.02	7.99	7560	27.32	52.20	10143	36.66	-50.13	27668
1998-99	16837	48.92	68.96	7963	23.14	5.33	9616	27.94	-5.20	34416
1999-00	14551	35.90	-13.58	11172	27.56	40.30	14808	36.53	53.99	40531
2000-01	14219	40.58	-2.28	11155	31.84	-0.15	9662	27.58	-34.75	35036
2001-02	17855	39.82	25.57	12316	27.47	10.41	14667	32.71	51.80	44838
2002-03	17514	64.55	-1.91	12599	46.43	2.30	-2979	-10.98	-120.31	27134
2003-04	20170	-629.13	15.17	15120	-471.62	20.01	-38496	1200.75	1192.25	-3206
2004-05	35016	179.39	73.60	18014	92.29	19.14	-33511	-171.68	-12.95	19519
2005-06	35771	63.52	2.16	19848	35.25	10.18	692	1.23	-102.06	56311
2006-07	36691	72.48	2.57	22602	44.65	13.88	-8672	-17.13	-1353.18	50621
2007-08	41819	38.60	13.98	65122	60.12	188.12	1386	1.28	-115.98	108327
2008-09	47379	56.24	13.30	30111	35.75	-53.76	6747	8.01	386.80	84237
2009-10	62383	57.91	31.67	38303	35.56	27.21	7034	6.53	4.25	107720
2010-11	79829	52.58	27.97	60842	40.07	58.84	11165	7.35	58.73	151836
2011-12	78881	55.93	-1.19	60584	42.95	-0.42	1577	1.12	-85.88	141042
2012-13	83839	53.22	6.29	66725	42.36	10.14	6965	4.42	341.66	157529

2013-14	87900	46.84	4.84	68776	36.65	3.07	30999	16.52	345.07	187675
2014-15	89645	46.60	1.99	67451	35.06	-1.93	35282	18.34	13.82	192378
2015-16	106389	44.07	18.68	98970	40.99	46.73	36072	14.94	2.24	241431

Sources: Various issues of Indian Public Finance Statistics, and 2) Budget Statement 2015-16.

Similar to Non-developmental expenditure, there were fluctuations in Developmental expenditure also in 2003-04 and 2004-05. It reached a negative growth rate of -471.6 per cent in 2003-04 and galloped to 92.3 per cent in 2004-05. In the following years it depicted a fluctuating trend and settled at 41 per cent in 2015-16. In both Non-developmental and Developmental expenditures, the movements of growth rates were highly fluctuating with highest disturbances in 2003-04 and 2004-05 in particular. The causal agent is the Loans and Advances component.

Since the states and union territories suffer from shortage of funds for undertaking developmental projects, the Central Government provides them loans for undertaking various activities in their respective areas. In 1990-91 the percentage contribution of Loans and Advances constituted more than 50 per cent. It gradually decreased and reached a negative rate of -10.98 per cent in 2002-03 with a slight rise in 1995-96 and 1996-97. In 2003-04, its share jumped to its highest at 1200.75 per cent. But in the following year, it reached its all time lowest by dipping down to -171.68 per cent. Thereafter it started gaining momentum and reached up to 18.34 per cent in 2014-15 and stood at 14.5 per cent in 2015-16. The overall picture depicts quite a stable trend in all the three components except in the years 2003-04 and 2004-05. The reason for these outliers is attributed to the implementation of FRBM Act. The reverse trend of Loans and Advances can be observed due to the Debt consolidation and Debt Waiver Scheme for the state governments started by the Central Government.

From the foregoing analysis of the trends in expenditure at the central level, it could be concluded that the total expenditure of the central government has been rapidly growing throughout the study period. Though there has been steady growth in the level of expenditures, the major proportion has been in the form of revenue expenditure which is not desirable in an economy like ours as it does not yield any returns. Therefore, capital expenditure which incurs revenue for the economy has to be enhanced in such a way that it would help in boosting infrastructural growth and thereby lead to overall development of the economy.

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